

Message Text

CONFIDENTIAL

PAGE 01 BRASIL 06152 241907Z

64

ACTION COME-00

INFO OCT-01 ARA-06 ISO-00 EB-07 EUR-12 AID-05 CIAE-00

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 /061 W

----- 055168

R 241810Z JUL 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 557

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMEMBASSY ASUNCION

C O N F I D E N T I A L BRASILIA 6152

E.O.11652: GDS

TAGS: ENRG, BR

SUBJECT: ITAIPU DEVELOPMENTS

REF: A. ASUNCION 2561 B. STATE 168333

1. SUMMARY: CONGEN RIO HAS DISCUSSED POINTS RAISED IN REFTEL WITH LOCAL GE AND ITAIPU BINATIONAL OFFICIALS. GE REPS STATE THERE HAVE BEEN SEVERAL MEETINGS SINCE DECEMBER WITH PARAGUAYANS. IN VIEW OF THESE RELATIVELY FREQUENT CONTACTS, THEY ARE SOMEWHAT CONCERNED OVER MEANING OF DEBERNARDI'S REMARKS TO EMBASSY. ANOTHER MEETING IS SCHEDULED WITH DEBERNARDI IN SAO PAULO ON JULY 22. ITAIPU OFFICIALS HAVE REVEALED WELL-DEFINED FINANCIAL PLAN FOR CONSTRUCTION OF PROJECT AND DISCOUNT POSSIBILITY THAT EUROPEAN CONSORTIUM WOULD FINANCE ENTIRE PROJECT. THE CONSTRUCTION SCHEDULED FOR ITAIPU HAS SLIPPED SIX MONTHS. INVITATIONS TO PRE-QUALIFY ARE NOW EXPECTED TO BE SENT IN JANUARY 1976. END SUMMARY.

2. FOLLOWING MEETINGS HELD IN ASUNCION LAST NOVEMBER WITH EMBASSY AND PARAGUAYAN ITAIPU OFFICIALS, INCLUDING DEBERNARDI, COMMERCIAL COUNSELOR AND CONGEN OFFICER INFORMED LOCAL GE REPS OF PARAGUAYAN DESIRE TO MEET WITH FOREIGN FIRMS WISHING TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BRASIL 06152 241907Z

PARTICIPATE AS SUPPLIERS TO ITAIPU PROJECT. GE REPS STATE

THAT THIS ADVICE WAS HEEDDED AND FOLLOWING MEETINGS HAVE TAKEN PLACE BETWEEN GE AND PARAGUAYAN OFFICIALS IN ASUNCION:

A) DECEMBER 1974 - T. ROMENACH, PRESIDENT GE DO BRASIL AND DEBERNARDI:

B) MARCH 1975 - ROMANACH, ACCOMPANIED BY PARAGUAYAN GE REPRESENTATIVE, A. ARTAZA, AND PRESIDENT STROESSNER:

C) APRIL 1975 - ROMANACH, ACCOMPANIED BY ARTAZA AND GEOFFREY STEWART, GE HYDO SPECIALIST LOCATED IN RIO, AND DEBERNARDI AND HANS KRAUCH. IN ADDITION TO ABOVE, GE REPS STATE THAT A MEETING HAS BEEN ARRANGED BETWEEN DEBERNARDI AND ROMANACH IN SAO PAULO ON JULY 22.

3. A LETTER, INTRODUCING GE CONSORTIUM FOR ITAIPU, HAS BEEN PRESENTED TO ITAIPU BENATIONAL. LETTER WAS ADDRESSED TO COSTA CAVALCANTI AND EBERNARDI WITHOUT MAKING DISTINCTION BETWEEN THE TWO. INFORMATION COPIES OF LETTER ARE BEING POUCHED TO MEFD AND EMBASSY ASUNCION.

4. IN VIEW OF RELATIVELY FREQUENT CONTACT WITH DEBERNARDI, LOCAL GE REPS ARE SOMEWHAT CONCERNED OVER MEANING OF HIS REMARKS TO EMBASSY ASUNCION. ONE POSSIBILITY IS THAT BEBERNARDI WAS REFERRING TO ABSENCE OF CONTACT WITH U.S. BASED GE OFFICIALS. A SECOND, DARKER POSSIBILITY IS THAT HE MAY BE ALLUDING TO THE NECESSITY FOR SOME FORM OF AN "ARRANGEMENT". GIVEN PRESENT CLIMATE IN US, GE REPS REPORT THE SECOND POSSIBILITY IS ANATHEMA WITHIN THEIR COMPANY AND THAT FOR THEM TO EVEN SUGGEST SUCH A COURSE OF ACTION WOULD BE AN INVITATION FOR DISMISSAL.

5. CONGEN OFFICER DISCUSSED ALLEGED EUROPEAN PROPOSAL WITH MOAOYR TEIXEIRA, ITAIPU BINATIONAL DIRECTOR, AND WITH JOSE GELASIO DA ROCHA, CHIEF ENGINEER OF PROJECT AND PRINCIPAL ASSISTANT TO JOHN COTRIM. (COTRIM HIMSELF HAS BEEN TRAVELLING AND HAS BEEN UNAVAILABLE FOR APPOINTMENT.) ACCORDING TO DA ROCHA AND TEIXEIRA, THE EUROPEAN CONSORTIUM OFFER WAS A LETTER TO ITAIPU BENATIONAL INTRODUCING THE CONSORTIUM AND STATING IN GENERAL TERMS THE CAPABILITIES OF THE INDIVIDUAL COMPANIES AND THE FINANCING AVAILABLE THROUGH GOVERNMENT FINANCING AGENCIES. IN EFFECT, IT WAS SIMILAR TO THE GE LETTER MENTIONED ABOVE WHICH ALSO ALLUDES TO THE POSSIBILITY

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 BRASIL 06152 241907Z

OF LONG-TERM FINANCING FROM US AND CANADIAN GOVT AGENCIES. TEIXEIRA AND DA ROCHA BOTH REAFFIRMED THAT BASIC POLICY GUIDELINES REPORTED BY DONGEN EARLIER (AND DISCUSSED DIRECTLY WITH COTRIM IN WASHINGTON BY COMMERCE) STILL HOLD, E.G., THE ITAIPU COMPANY DOES NOT WISH TO BE TIED TO A SINGLE SOURCE OF SUPPLY FOR THE LARGE TURBINE/GENERATOR UNITS AND WISHES TO MAXIMIZE NATIONAL CONTENT IN THIS EQUIPMENT. GIVEN THESE POLICY GUIDELINES, THERE IS NO RPT NO POSSIBILITY OF ITAIPU BECOMING A

TURNKEY PROJECT AND BEING TURNED OVER TO A SINGLE CONSORTIUM.

6. FOR MEFD'S INFORMATION, FOLLOWING FIRMS ARE MEMBERS OF EUROPEAN CONSORTIUM: A) MAIN CONTRACTORS - BROWN-BOVERI (GERMANY-CONSORTIUM LEADER), ALSTHOM/NEYPRIC AND CREUSCT-LOIRE (FRANCE), BALFOUR-BEATTY (ENGLAND), ENERGOMACHEXPORT (RUSSIAN), SIEMENS AND VOITH (GERMAN); B) SUB-CONTRACTORS - BROWN-BOVERI (SWITZERLAND), CHECO (CANADIAN), AND WESTINGHOUSE.

7. TEIXEIRA INDICATED THAT, IN SPITE OF MOUNTING COSTS, FINANCING FOR ITAIPU APPEARS TO BE ADEQUATE. HE GAVE THE FOLLOWING BREAKDOWN OF THE COMPANY'S ASSESSMENT OF FINANCING SOURCES, ASSUMING A TOTAL COST OF US\$5 BILLION (EXCLUDING US\$1.2 BILLION COST FOR TRANSMISSION LINES WHICH ARE BEING HANDLED BY FURNAS): A) US\$2.2 TO 2.5 BILLION WILL COME FROM ELECTROBAS. THIS SUM REPRESENTS HALF OF THE RETURNS FROM THE MANDATORY LOAN (EMPRESTIMO COMPULSORIO), A FORM OF TAX ON INDUSTRIAL USERS OF ELECTRICITY. IT WOULD COVER MUCH OF THE CRUZEIRO COST OF THE CIVIL WORKS; B) US\$500 MILLION IS EXPECTED TO BE PROVIDED BY FINEP, A SUBSIDIARY OF THE BNDE (NATIONAL DEVELOPMENT BANK), AND, BY THE BNH (NATIONAL HOUSING BANK). FINEP FUNDS WILL BE USED TO PAY FOR ENGINEERING SERVICES. AS REPORTED EARLIER, MOST OF THE PROJECT'S ENGINEERING WILL BE PERFORMED BY THREE BRAZILIAN FIRMS UNDER THE COORDINATION OF INTERNATIONAL ENGINEERING AND ELECTRO-CONSULTANTS - IECO/ELC. WE UNDERSTAND THAT IECO/ELC HAS AGREED TO ACCEPT PAYMENT IN CRUZEIROS MAKING FINEP PARTICIPATION MUCH MORE PLAUSIBLE. BNH MONEY WILL OFFSET COSTS OF HOUSING FOR CONSTRUCTION WORKERS; C) US\$1 BILLION IS EXPECTED IN THE FORM OF SUPPLIERS' CREDITS OF WHICH US\$500 MILLION FROM FINAME, ANOTHER BNDE SUBSIDIARY, AND THE REMAINDER FROM FOREIGN EXPORT DEVELOPMENT AGENCIES. THE FINAME PORTION WILL BE USED TO COVER EQUIPMENT PURCHASES FROM LOCAL SUPPLIERS; D) US\$1 BILLION IN WORKING CAPITAL TO
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 BRASIL 06152 241907Z

BE RAISED THROUGH LAW 4,131 FOREIGN LOANS OVER THE EIGHT YEAR CONSTRUCTION PERIOD.

8. IT SHOULD BE NOTED THAT THE ABOVE FINANCING SCENARIO DOES NOT ALLOW FOR EITHER WORLD BANK OR IDB FINANCING. WHILE TEIXEIRA DID NOT EXPLICITLY EXCLUDE THESE SOURCES, HE LEFT LITTLE DOUBT THAT BRAZIL CONSIDERED THEIR PARTICIPATION UNLIKELY OWING TO ARGENTINE OPPOSITION TO THE PROJECT. IT APPEARS FROM THE ABOVE SCENARIO AS WELL THAT ITAIPU BINATIONAL HAS A WELL-DEFINED FINANCING PLAN. THERE WOULD BE LITTLE REASON, THEREFORE, FOR ITAIPU BINATIONAL TO LOCK ITSELF TO A SINGLE CONSORTIUM BECAUSE OF AN ATTRACTIVE FINANCIAL PACKAGE. TEIXEIRA DISCOUNTED POSSIBILITY THAT EUROPEAN CONSORTIUM HAD OFFERED TO FINANCE ALL MAJOR COMPONENTS OF THE PROJECT, POINTING OUT THAT IT MADE LITTLE SENSE FOR EQUIPMENT

SUPPLIERS TO FINANCE BILLIONS OF DOLLARS IN CONSTRUCTION
COSTS WHICH MUST BE MET IN LOCAL CURRENCY.

9. WE UNDERSTAND THAT THE CONSTRUCTION SCHEDULE FOR ITaipu
HAS SLIPPED SIX MONTHS FROM THAT REPORTED IN RIO'S A-25 OF
APRIL 7, 1975. ACCORDING TO IECO/ELC AND ITaipu BINATIONAL
SOURCES, INVITATIONS TO PRE-QUALIFY FOR THE TURBINE/GENERATORS
WILL NOW RPT NOW BE ISSUED IN JANUARY 1976, BIDS WILL BE
ISSUED IN JUNE 1976 AND AWARDS MADE IN JANUARY 1977. THE
SLIPPAGE IS ATRIBUTED TO CONTINUED DIFFICULTY WITH PARAGUAY
OVER THE 50/60 CYCLE PROBLEM AND THE DECISION TO FORM A
CONSORTIUM OF LOCAL CONSTRUCTION FIRMS TO DIG THE DIVERSION
CHANNEL.
RUSER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, CONSTRUCTION, HYDROELECTRIC POWER PLANTS, CONTRACTS, JOINT VENTURES
Control Number: n/a
Copy: SINGLE
Draft Date: 24 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRASIL06152
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750256-0230
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750723/aaaaauho.tel
Line Count: 183
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION COME
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 ASUNCION 2561, 75 STATE 168333
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by CunninFX>; APPROVED <25 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITAIPU DEVELOPMENTS
TAGS: ENRG, BEXP, BR, PA, ITAIPU
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006